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Supreme Court, U.S.
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No. 02-1585

IN THE

Supreme Court of the United States

BAYSTATE TECHNOLOGIES, INC.,
Petitioner,

v.

HAROLD L. BOWERS
(doing business as HLB Technology),
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF IN OPPOSITION TO WRIT OF CERTIORARI

FREDERIC M. MEEKER
Counsel of Record
CHARLES W. SHIFLEY
BRADLEY C. WRIGHT
BANNER & WITCOFF, LTD.
1001 G Street, N.W.
Eleventh Floor
Washington, D.C. 20001
(202) 824-3000

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39 pp

QUESTION PRESENTED

Petitioner entered into a contract with Respondent whereby Petitioner promised not to reverse engineer Respondent's software. Petitioner then devoted weeks of development time to reverse engineering Respondent's software. Having been found in breach of this contract, Petitioner argues on appeal that its promise was illusory - that the contract is unenforceable as being preempted by the Copyright Laws, and that the Petitioner has a constitutional right to utilize everything it obtained through reverse engineering, even if it is a trade secret. The question presented by the petition, therefore, is as follows:

Did the Federal Circuit properly conclude that private parties are free to enter into contracts involving reverse engineering?

CORPORATE DISCLOSURE STATEMENT

There are no parent corporations of Respondent and there are no publicly held companies that own 10% or more of the stock in Respondent.

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CONSTITUTIONAL AND STATUTORY PROVISIONS

Pursuant to Supreme Ct. Rule 24(2), Respondent identifies the following additional statutory provisions that are pertinent to this case, but which were omitted from the Petition (the full text of these sections appears in the attached appendix, at pages 1a-3a):

1) 17 U.S.C. §106, entitled "Exclusive rights in copyrighted works."

2) 17 U.S.C. §906, entitled "Limitation on exclusive rights: reverse engineering; first sale," and in particular subsection (a) of that section.

3) 17 U.S.C. §1201, entitled "Circumvention of copyright protection systems," and in particular subsection (f) of that section.

BRIEF IN OPPOSITION

This case deals with the enforceability of a private contract between the parties, where, in order to protect Respondent's trade secrets, Petitioner promised to refrain from reverse engineering Respondent's product. Rejecting Petitioner's argument below, the Federal Circuit found that the Copyright Act does not preempt enforcement of the private contract, and that Petitioner was properly found liable for the harm it caused when it breached the contract. Petitioner contends that the contract was unenforceable from the start as being preempted, and that the Federal Circuit's decision on this issue creates a "split" among appellate courts that requires this Court's review. No such split exists, as the cases cited by Petitioner address different facts and different aspects of copyright preemption. The Federal Circuit's decision merely recognizes that private parties are free to contract away their own ability to reverse engineer their competitor's products, thereby protecting valuable trade secrets. The only rights affected by the Federal Circuit's decision are those of the private parties to the contract, no public rights are implicated, and this case does not warrant granting *certiorari*.

STATEMENT OF THE CASE

A. The Contractual Relationship Between Petitioner and Respondent

The contract at issue here was an agreement that was accepted by Petitioner when it opened and used Respondent's software with full knowledge of its provisions.

Petitioner makes much of the nature of the contract as being a "shrink wrap license," apparently suggesting that the basic contract formation elements (offer, acceptance, consideration, breach and damages) are somehow in question. As discussed below, Petitioner waived all the issues surrounding sufficiency of offer, acceptance, consideration, and breach by failing to challenge them in the district court and Court of Appeals. Petitioner never contested that the contract met the requirements of a legally binding contract, and never objected to it on the basis that it was unconscionable or a contract of "adhesion."

Far from being an unconscionable contract of "adhesion," the terms of the contract were front and center to the relationship between Petitioner and Respondent. Respondent initially offered to establish a formal relationship with Petitioner for the distribution of Respondent's products. Petitioner rejected that offer, stating that it had "the in-house capability" to develop the type of products Respondent offered. Using employees and others, some posing as students, Petitioner surreptitiously obtained numerous versions of Respondent's software, each containing the same license prohibiting reverse engineering.

The license at issue occupied the **entire** front cover of the software package and included a seal that read "Upon breaking this seal, I agree to the terms and conditions as stated on the Software License Agreement." Petitioner's CEO, who managed the development of the accused products, answered literally hundreds of questions relating to whether he copied Respondent's products by repeatedly stating "I don't know," "I don't recall," or "I don't

remember." The little recollection he did have showed direct evidence of copying. Petitioner collected "product capability information from [Respondent]" and then performed "an analysis of product features in comparison" before each of Petitioner's product releases.

In direct breach of its agreement, Petitioner devoted weeks of development time to analyzing and reverse engineering Respondent's product, resulting in a competing product that even duplicated errors found in Respondent's original product. The Federal Circuit recognized this evidence as supporting the jury's finding of a breach. *Bowers v. Baystate Technologies, Inc.*, 320 F.3d 1317, 1326-27 (Fed. Cir. 2003). This factual finding was not challenged on appeal below.

The copying of Respondent's products was so slavish that numerous errors and anomalies were copied verbatim. Each time Respondent improved his products the Petitioner copied the improvement. Consequently, Respondent was unable to distinguish his products in the marketplace. Given the inability to distinguish his products, a price war erupted between the two companies. Eventually, Respondent could no longer afford to invest in continued product development and was forced from the market.

Petitioner's CEO testified that one of Petitioner's directors authored a memorandum stating the following business model for Petitioner, referenced as "BT," which is telling:

"inventor rarely earns big dollars,"

"innovator rarely earns big dollars,"
"imitator usually earns big dollars,"
"BT [Baystate Technologies - Petitioner] developers don't originate, rather scan search for good technologies and propose them for markets."

B. The District Court Proceedings

Petitioner's brief contains factual misstatements and omissions. The jury unanimously found that Petitioner had willfully infringed Respondent's copyrights, willfully infringed Respondent's patent, and breached an existing contract between the parties. Petition App. p. 68a-72a. Contrary to this finding, Petitioner's appendix shows instead that the jury found that Petitioner did not willfully infringe the copyright. (Petition App. p. 71a). The jury's verdict is reproduced below:

Willful Copyright Infringement

Question 6: Did Bowers prove that Baystate willfully infringed a valid copyright owned by Bowers?

Answer: Yes 9 No 0

Petitioner's misstatement must not be allowed to stand. Petitioner also appears to suggest that the contract verdict required no more evidence than the copyright verdict. Petition, p. 7. That suggestion is untrue, as the contract verdict required numerous additional elements (such as a

valid offer, acceptance, consideration, reverse engineering/breach and damages) that were not necessary for the copyright verdict. These additional elements are discussed in more detail below.

C. The Federal Circuit's Decision on Appeal

Petitioner appealed the district court's judgment to the Federal Circuit. In its first decision, the Federal Circuit reversed the judgment with respect to the patent findings, and affirmed the contract damages. *Bowers v. Baystate Technologies,* 302 F.3d 1334 (Fed. Cir. 2002). In doing so, the Federal Circuit noted an error in the district court's jury instructions on the contract issue. *Id.* at 1343. In particular, the district court instructed the jury to find breach of contract only if it found that Petitioner also copied copyrightable elements of expression in Respondent's product. The Federal Circuit found, however, that this instruction was error and there was more than substantial evidence to support the jury's verdict even if it had been given a correct instruction, and as such, the Federal Circuit affirmed the contract findings.

The Federal Circuit also affirmed the district court's decision to omit the jury's award of copyright damages as being duplicative of the damages awarded for breach of contract. Having already affirmed the contract verdict and damages, the Federal Circuit declined to reach the copyright issues raised by Petitioner.

Petitioner then sought a rehearing en banc to address the preemption issue, and in the resulting decision, the

Federal Circuit affirmed its prior decision. *Bowers*, 320 F.3d 1317 (Fed. Cir. 2003).[1] The Federal Circuit's second decision addressed, in greater detail, Petitioner's argument that the language in Section 301 of the Copyright Act requires preemption of the contract at issue. *Id.* at 1324-25. Petitioner now seeks review from this Court of this second decision.

REASONS FOR DENYING THE PETITION

Petitioner has failed to preserve for review some of the arguments it now makes in this Court. Nevertheless, even considering those arguments, the Petition should be denied.

A. The Issues Raised By Petitioner Are Not Ripe For Review

1. Petitioner Has Waived Several Of The Issues Raised In Its Petition

Petitioner's opening brief before the Federal Circuit focused solely on statutory preemption as defined by Section

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[1] Baystate notes the amicus brief filed below in a footnote. It is significant that even the Amici below did not suggest the ultimate decision of the Federal Circuit was wrong: "Amici do not suggest reversal of the Panel's decision. We merely urge the court to consider conflict preemption . . ." As discussed below, conflict preemption was waived by Petitioner when it failed to raise it in its opening brief below.

301 of the Copyright Act.[2] Nowhere in that brief did Petitioner address or argue the separate issue of "conflict preemption" under the Constitution's Supremacy Clause[3]. As a result, the only preemption issue fully briefed by the parties below was preemption under Section 301 of the Copyright Act. The Federal Circuit's decision addresses this same statutory preemption, and did not render any decision regarding "conflict preemption" under the Supremacy Clause. Petitioner now confuses these distinct concepts by arguing both types of preemption, although it buries the newly-added conflict preemption argument in a footnote on page 18 of its Petition. Conflict preemption was never properly raised below, was never ruled on by the court below, and Petitioner has waived this argument. The preemption issue raised and addressed below, and the only one ripe for consideration here, is preemption as defined by Section 301 of the Copyright Act.

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[2] 17 U.S.C. § 301(a) defines the extent to which the Copyright Act preempts other rights, and reads as follows: "On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State."

[3] Petitioner first mentioned its new "conflict preemption" argument in its reply brief below – a brief to which Respondent could not respond.

Petitioner also newly calls into question contract formation, which was never raised in the court below. For example, Petitioner characterizes the contract at issue here as a "shrinkwrap" license, and one that was never negotiated between the parties. Petition, pp. 5-6. In his dissenting opinion, Judge Dyk picked up this newly-raised argument, referring to the agreement as one of "adhesion." Petition App. p. 32a[4]. Yet Petitioner failed to preserve this implicit attack on the enforceability of the agreement, because it presented no evidence or argument in the district court, and did not raise it in its opening brief in the Federal Circuit. The only contract issue Petitioner appealed dealt with whether such a contract, freely entered into by private parties, is preempted by Section 301 of the Copyright Act.

2. There Is No Conflict Warranting Review By This Court

Petitioner also misstates and exaggerates the extent to which any conflict exists among the circuit courts. Petitioner identifies only two cases in which this alleged split is demonstrated. These cases, however, turned on their individual facts, and do not represent a conflict with the long

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[4] "Shrinkwrap" licenses are routinely enforced. *See, e.g., Adobe Systems, Inc. v. Stargate Software Inc.*, 216 F.Supp.2d 1051, 1059 (N.D. Cal. 2002) (using shrinkwrap license in concluding that distribution transactions were license, and not sales); *Mudd-Lyman Sales and Service Corp. v. United Parcel Service, Inc.*, 236 F.Supp.2d 907 (N.D. Ill. 2002); and *I.Lan Systems, Inc. v. Netscout Service Level Corp.*, 183 F.Supp.2d 328 (D.Mass. 2002).

line of cases that have found that the Copyright Act does not preempt contractual restraints on copyrighted articles. *See, e.g., ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (holding that a shrink-wrap license was not preempted by federal copyright law)[5]; *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 457 (6th Cir. 2001) (holding a state law contract claim not preempted by federal copyright law); *Nat'l Car Rental Sys., Inc.v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 433 (8th Cir. 1993); *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990); *Acorn Structures v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988). *See also Bowers*, 320 F.3d at 1324 (Fed. Cir. 2003) (citing cases).

The first case cited by Petitioner is *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255 (5th Cir. 1988). In *Vault*, the Fifth Circuit considered the Louisiana Software License Enforcement Act (the "License Act"), La. Rev. Stat. Ann. §51:1961 *et seq.* (West 1987). That state statute included provisions that were in direct conflict with the Copyright Act. For example, where the Copyright Act expressly permits certain copying in the use of a computer program (17 U.S.C. §117), Louisiana's License Act endorsed a total prohibition against such copying. *Vault*, 847 F.2d at 269-70. The state law conflicted with the federal law, and the Fifth

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[5] As explained by the Seventh Circuit in *ProCD*: "A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create 'exclusive rights.'" *Id.* at 1454.

Circuit found the state law to be preempted. *Vault*, 847 F.2d at 270.

Vault did not address, however, the issue in the present case. In the present case, there is no state statute, no effort by the state legislature that conflicts with federal copyright law, and no conflicting common law right. Moreover, *Vault* made no finding as to a purported conflict between 17 U.S.C. §107 (the fair use defense) and the contract, which is the issue raised in this case. Nothing in *Vault* held that reverse engineering was preempted[6].

The other case cited by Petitioner is from the Supreme Court of Indiana finding a contract that prohibited copying to be preempted by the Act. In *Green v. Hendrickson*, 770 N.E.2d 784 (Ind. 2002), the Supreme Court of Indiana dealt with a claim that a contract was breached when the defendant publisher continued to print copies of the plaintiff's protected work. *See Green*, 770 N.E.2d at 790. That Indiana court distinguished the facts before it from other cases in which the license at issue "included a variety of terms beyond a simple covenant not to reproduce the work." *Green*, 770 N.E.2d at 789. The contract at issue in this case, which includes a variety of clauses including the one addressing reverse engineering, is much more than "a simple covenant not to reproduce the work."

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[6] Furthermore, *Vault dealt with* 17 U.S.C. §117, a section irrelevant to the instant case.

The two cases raised by Petitioner hardly demonstrate a rift in the fabric of the law of copyright preemption. To the contrary, they merely demonstrate that different facts can yield different results.

Further, in rendering its decision, the Federal Circuit merely applied First Circuit precedent, as understood by the Federal Circuit, to predict how the First Circuit would likely have resolved the preemption issue. *Bowers*, 320 F.3d at 1324 ("The First Circuit has not addressed expressly whether the Copyright Act preempts a state law contract claim that restrains copying. This court perceives, however, that Data General's rationale would lead to a judgment that the Copyright Act does not preempt the state contract action in this case."). The Federal Circuit's extrapolation of First Circuit precedent dealing with a reverse engineering agreement is not binding on the First Circuit, and even if it were in conflict with another circuit (which as explained above, it is not) there is no definitive split of circuit authority.

B. The Agreement At Issue Was Not Preempted

As noted above, Petitioner seeks to argue two alternative bases for preemption: 1) preemption under Section 301 of the Copyright Act; and 2) conflict preemption under the Constitution. Petitioner only raised the former in its appeal brief below, waiving any argument it had regarding the latter. Even if this Court were to entertain Petitioner's untimely argument, no preemption exists under either argument.

1. Section 301 Does Not Preempt The Agreement

In Section 301, Congress defined the extent to which the Copyright Act preempts other rights. The Act itself clearly states that it only preempts those rights that are equivalent to those granted by Section 106 of the Act:

> . . . all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 . . .

17 U.S.C. §301(a) (emphasis added). In determining whether a state cause of action is such an "equivalent," courts have looked to the elements of that cause of action, noting that "[i]f a state cause of action requires an extra element, beyond mere copying, preparation of derivative works, performance, distribution or display, then the state cause of action is qualitatively different from, and not subsumed within, a copyright infringement claim and federal law will not preempt the state action." *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1164 (1st Cir. 1994) (quoting *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 846-47 (10th Cir. 1993)). *See also Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 659 (4th Cir. 1993) ("To avoid preemption, a cause of action defined by state law must incorporate elements beyond those necessary

to prove copyright infringement, and must regulate conduct qualitatively different from the conduct governed by copyright law."); *and Computer Associates Intern., Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir. 1992) ("[i]f an 'extra element' is 'required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie 'within the general scope of copyright,' and there is no preemption."). In the instant case, the cause of action is not equivalent to any right granted under Section 106, and is not preempted.

i. Breach Of Contract Includes Extra Elements

The cause of action at issue is breach of a contract in which Petitioner promised to refrain from reverse engineering Respondent's software. This cause of action required proof of a number of "extra elements," none of which were required for copyright infringement, but all of which were required in order to establish the breach. For example, the jury could only find a breach of contract if: (1) there was a contract; (2) Respondent performed his obligations under the contract; (3) Petitioner failed to perform its obligations under the contract; (4) Respondent suffered damages as a result of the breach of contract. Further, to find existence of the contract, the jury had to determine whether the parties intended to agree to the terms at the time the contract was made. The jury was also required to find that there was both an offer and acceptance, that the offer must state with reasonable certainty what is to be exchanged between the parties and that acceptance of an

offer is an expression of willingness or desire to assent to the terms of the offer. The jury was also instructed that a contract required consideration in the form of exchanged promises, performance or non-performance.

The jury ultimately concluded that a contract had indeed been formed, and that Petitioner breached the contract. In doing so, the jury, as instructed, determined the existence of "extra elements" that render the contract claim to be qualitatively different from all of the rights granted under Section 106 of the Copyright Act, and as such, not preempted by the Act.

ii. Reverse Engineering Is An Additional Element And Is Not Equivalent

Reverse engineering is also not equivalent to any of the Section 106 rights, and furthermore constitutes an extra element for purposes of preemption. Petitioner characterizes reverse engineering as a fair use; yet fair uses are expressly excluded from the Section 106 rights. Petition, p. 9; and 17 U.S.C. § 107 (excluding fair use from Section 106). This is not surprising, since reverse engineering is not an affirmative right granted under the Act – to anyone. It is, by definition, only a defense to a charge of copyright infringement. The simple terms of the Act itself make clear that the Copyright Act does not preempt private contract rights relating to reverse engineering.

Not only is reverse engineering absent from the exclusive rights granted under Section 106, it is qualitatively

different from all of those rights. Petitioner relies on a definition offered by this Court in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974), expressing the concept as "starting with the known product and working backwards to divine the process which aided in its development." *Id.* This "working backwards" is nothing like the reproduction, distribution, derivative work and performance rights conferred by Section 106, and as such, the agreement regarding reverse engineering is not preempted by the Copyright Act.

iii. Petitioner Focuses On The Wrong Point

Rather than focusing on the required elements of the cause of action, Petitioner suggests that preemption arises merely if the same conduct gives rise to both state and federal claims. Petition, p. 11 (". . . even though it was purportedly based on the same conduct giving rise to the copyright claim"). This misses the point of Section 301. *See, e.g., Trandes*, 996 F.2d at 659 ("Atkinson takes the wrong approach by focusing its preemption analysis on the conduct alleged to support the two causes of action. To determine whether a particular cause of action involves rights equivalent to those set forth in Section 106, the elements of the causes of action should be compared, not the facts pled to prove them."). In the "extra element" preemption analysis discussed above, the relevant inquiry focuses on the required elements of the claim, and not on the facts pled to prove those elements.

2. There Is No Conflict Preemption

Petitioner did not properly raise conflict preemption under the Supremacy Clause in its briefing below; the issue was not fully briefed below; and this line of attack is not ripe for review by this Court. Even if this Court were to entertain Petitioner's untimely argument, the end result would be no different – there is no conflict preemption.

Under principles of conflict preemption, the relevant inquiry is whether the state law action frustrates "the accomplishment and execution of the full purposes and objectives of Congress." *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941). There is nothing in the record or legislative history to suggest that Congress's purpose and objective in enacting the Copyright Act included foreclosing private contracts such as the one at issue here.

The freedom to contract is an important one, and this Court has recognized that parties are even free to contract away rights or defenses that they might otherwise have had. *See, e.g., U.S. v. Ruiz*, 536 U.S. 622 (2002) (upholding plea agreement by which criminal defendant waived Constitutional right to access impeachment information); *C&L Enterprises v. Citizen Band Potawatomi Indian Tribe of Oklahoma*, 532 U.S. 411 (2002) (finding that by signing an arbitration agreement, Native American Indian tribe waived its sovereign immunity to extent that it could be sued for action arising out of agreement); and *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979) (upholding private contract dealing with patent royalties). Even Judge Dyk, in his dissenting opinion below, agreed that "states can permit

parties to contract away a fair use defense or to agree not to engage in uses of copyrighted material that are permitted by the copyright law, if the contract is freely negotiated."[7] *Bowers*, 320 F.3d at 1336 (Dyk, dissenting).

There is nothing to suggest that Congress intended to restrict such an important right, and a leading treatise on copyrights posits that the legislative history of the act shows that Congress did not intend to preempt contract rights. See, e.g., 10 M. Nimmer & D. Nimmer, Copyright §1.01[B][1][a] (2002). Indeed, Congress's purpose and objective regarding preemption is explicitly spelled out in the Act itself, which limits the scope of preemption to only those state rights that are equivalent to the rights granted under Section 106. *See* 17 U.S.C. § 301. The right to contract is not among or equivalent to the rights granted under Section 106.

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[7] Judge Dyk's discussion regarding agreements being "freely negotiated," and the resulting "black dot" analogy, appear to be directed toward whether the parties knowingly or willingly entered into the agreement. *Bowers*, 320 F.3d at 1336 (Dyk, dissenting). As noted above, Petitioner waived this argument by not appealing the jury's finding that the contract was knowingly and freely entered into by both parties. Accordingly, the "black dot" discussion presents a hypothetical that is distinguishable from the issue now before the Court.

3. Reverse Engineering Is Not "Per Se" Fair Use

Petitioner also assumes that reverse engineering, by definition, is a fair use under the Act. This assumption ignores the very language of the fair use provisions in the Act, which require courts to consider the following factors in deciding whether a particular use is a fair use:

> 1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> 2) the nature of the copyrighted work;
>
> 3) amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> 4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107. Applied to the facts of this case, Petitioner's use was hardly fair. The Federal Circuit noted that Petitioner's use was commercial:

> [t]he record indicates, for example, that Baystate [Petitioner] scheduled two weeks in Draft-Pak's development schedule to analyze the Designer's Toolkit [Respondent's product]. Indeed, Robert Bean, Baystate's

> president and CEO, testified that Baystate generally analyzed competitor's products to duplicate their functionality.

Bowers, 320 F.3d at 1326. Such a commercial use weighs against finding it to be "fair use" under the Act. *See, e.g., Campbell v. Acuff-Rose Music Inc.*, 510 U.S. 569, 585 (1994) ("the fact that a publication was commercial as opposed to nonprofit is a separate factor that tends to weigh against a finding of fair use.") (quoting *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 562 (1985)). The third factor, amount and substantiality of copying, also weighs against a fair use finding, since, as the Federal Circuit noted, the author of Respondent's software testified that upon viewing Petitioner's product, "[i]t looked like I was looking at my own program." *Bowers*, 320 F.3d at 1327. Finally, the fourth factor, the effect of the use on the market value of the protected work, puts the nail in the coffin of Petitioner's fair use argument: Petitioner's "reverse engineered" version of Respondent's product forced Respondent to lower his own asking price to zero, in the desperate hopes of recovering costs through future sales of upgrades. Petitioner copied Respondent's product, breaking its word in doing so, and the resulting copy destroyed Respondent's market. This was not fair use. This was theft.[8]

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[8] This is consistent with Petitioner Baystate's business model, which was summarized by a member of Baystate's board of directors as follows: "BT model,

The fact that reverse engineering is not a "per se" fair use is made even clearer by the fact that Congress has enacted, in other sections of the Copyright Act, provisions that specifically permit reverse engineering-type activity in only limited circumstances. Section 906 of the Act states that "it is not an infringement of the exclusive rights of the owner of a mask work for (1) a person to reproduce the mask work solely for the purpose of teaching, analyzing, or evaluating the concepts or techniques embodied in the mask work . . ."

Similarly, as part of the Digital Millennium Copyright Act (DMCA), Congress in 1998 enacted 17 U.S.C. §1201(f), which provides the following narrow protection for reverse engineering:

> (f) Reverse Engineering – (1) Notwithstanding the provisions of subsection (a)(1)(A), a person who has lawfully obtained the right to use a copy of a computer program may circumvent a technological measure that effectively controls access to a particular portion of that program for the sole purpose

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inventor rarely earns big dollars, innovator rarely earns big dollars, imitator usually earns big dollars;" "BT developers don't originate, rather scan search for good technologies and propose them for markets."

> of identifying and analyzing those elements of the program that are necessary to achieve interoperability of an independently created computer program with other programs, and that have not previously been readily available to the person engage in the circumvention, to the extent any such acts of identification and analysis do not constitute infringement under this title.

Given that Congress has already defined two narrow circumstances in which reverse engineering should be permitted, Petitioner's broad assumption that all forms of reverse engineering are fair use is untenable because it would render superfluous the other Congressionally-defined exceptions for reverse engineering. *See, e.g., Reiter v. Sonotone Corp.*, 442 U.S. 330, 339 (1979) ("In construing a statute we are obliged to give effect, if possible, to every word Congress used.").

C. Respondent's Response To The Dissenting Opinion

The dissenting opinion draws the sweeping conclusion that reverse engineering is not only a *per se* fair use under the Copyright Act that negates a charge of copyright infringement, but that it is an inalienable right that trumps private contracts, state laws, and (presumably) other federal laws that may conflict with its broad purpose. It is as if the dissent has created an entirely new federal right – the "right to reverse engineer."

First, the dissenting opinion confuses the holdings of *Atari*, *Bateman*, and *Sega* – all concerning whether a claim for copyright infringement can be negated by a fair use defense – with the question posed by this case, which is whether two parties can contractually agree to not use software in a particular manner. Merely because reverse engineering might constitute a defense to copyright infringement does not mean that reverse engineering also is an affirmative right that trumps other state and federal laws, or the right of private parties to contract. Using that logic, patent infringers would be free to use a patented software invention as long as they could claim that they were merely "reverse engineering" it to develop a competing product.

Second, the dissenting opinion assumes the most central fact on which it relies – that the license at issue is a contract of "adhesion" that was "not freely negotiated." Petitioner has never denied that the contract at issue in this case was the subject of a proper offer, acceptance, and consideration, and it never before raised unconscionability or "adhesion" as a contract defense. Nor has petitioner ever denied that the contract was breached. It is simply too late to start creating excuses or defenses that were never raised below. The dissenting opinion acknowledges that "a freely negotiated agreement represents the 'extra element' that prevents preemption of a state law claim . . . ." but provides no explanation regarding how the contract at issue fails to meet that test and provides no basis for evaluating contracts – presumably on a case-by-case basis – that would permit contracting parties to determine with any certainty whether a given contract would be enforceable years later in litigation.

Third, the dissenting opinion assumes that reverse engineering necessarily meets the four factors set forth in 17 U.S.C. § 107, ignoring entirely this Court's admonition that no such bright-line rules should be used to evaluate whether a given use is a fair use, see *Campbell*, 510 U.S. at 578 ("The task is not to be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis"). Under the dissent's approach, every case of reverse engineering necessarily qualifies as a fair use, regardless of the four factors.

Finally, the dissenting opinion does not address the logic, found in the majority's opinion, that the Copyright Act itself already provides for reverse engineering in only very limited circumstances, see 17 U.S.C. § 1201(f) and 17 U.S.C. § 906. Adopting the dissent's reasoning would render those provisions superfluous, since all forms of reverse engineering would be permitted under the dissent's theory.

D. Public Policy Favors The Status Quo

Trade secret protection is fundamental to most businesses in the United States. An important component of that protection is the freedom between private parties to contract in order to manage their relationships. The use of a clause limiting reverse engineering allows a company to control the use of its trade secrets, and is a standard provision used by many companies. Trade secrets and other proprietary information often take years to develop. Given the technology and tools available today, this information may be readily obtained via reverse engineering in a very short period of time and at little cost. Consequently,

companies have developed contractual restrictions on how certain products and information may be used.

The case at bar is a classic example. A product that took years to develop was reverse engineered by Petitioner in two weeks. A copy was then offered for sale by Petitioner within three months of its original introduction by Respondent. The reverse engineering was not done for interoperability, and was not necessary to use Respondent's product. Rather, it was done for the simple reason that it was more profitable to misappropriate than to innovate.

Petitioner attempts to characterize itself as "innovative," and that its actions are somehow favored by public policy. Petition, pp. 14-17. Setting aside for the moment Petitioner's business model that imitators, not innovators, "make big dollars," and ignoring the fact that Petitioner admitted to duplicating competitors' functionality, and that Petitioner copied Respondent's programs so closely that even errors were copied, Petitioner's public policy argument contradicts itself. On the one hand, Petitioner argues that voiding all trade secret contracts that prevent reverse engineering will benefit the public interest and "our national economy," and that failure to do so will "cripple the software industry." Petition, pp. 14-15.

On the other hand, Petitioner concedes that the software industry is already heavily relying on such reverse engineering prohibitions for protection: "[s]imilar reverse engineering prohibitions are common throughout the software industry." Petition, p. 6, n.3. The Federal Circuit's decision merely affirms the industry-wide reliance on such protective measures. It is Petitioner's desired result – the

evisceration of reverse engineering contracts – that would cripple the industry, as a widely-relied-upon measure of protection would suddenly be wiped away.

CONCLUSION

The petition raises no important question requiring resolution by this Court – Copyright law and contract law peacefully coexist. Petitioner's two cases hardly demonstrate a "split" of authority, when read in context with their facts; Petitioner improperly attempts to raise arguments that were not raised below; and Petitioner ignores the simple facts of the present case to manufacture a more compelling case for appeal. The petition should be denied.

Respectfully submitted,

FREDERIC M. MEEKER
Counsel of Record
CHARLES W. SHIFLEY
BRADLEY C. WRIGHT
BANNER & WITCOFF, LTD
1001 G Street, N.W.
Washington, D.C. 20001
(202) 824-3000

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